

## CHAPTER 1

### SCOPE AND COMPOSITION

#### INTRODUCTION

Chapter One gives an overview of the State's organizational structure. Some of the duties of certain administrative agencies in relation to the centralized accounting system are provided. Agency accounting responsibilities are also described.

#### STATE ORGANIZATION AND AUTHORITY

A simplified organizational chart of Indiana State Government is provided on the next page. The three branches of government are the Executive, Legislative and Judicial. The Executive branch includes seven elected officials in addition to the Governor. The Governor appoints other top executives of state government, generally as agency directors, board or commission members.

The basis for the State's organizational structure is derived from the Indiana constitution. Authority for agency operations may be defined by state laws, also known as statutes, or executive orders issued by the Governor. State operational policy may be further defined by administrative code, also known as rules or regulations. State statutes are published as Indiana Code, which is commonly abbreviated as IC when a cite is referenced. Indiana Administrative Code may be denoted as IAC.

All branches of state government, Executive, Legislative and Judicial, utilize the centralized state accounting system.

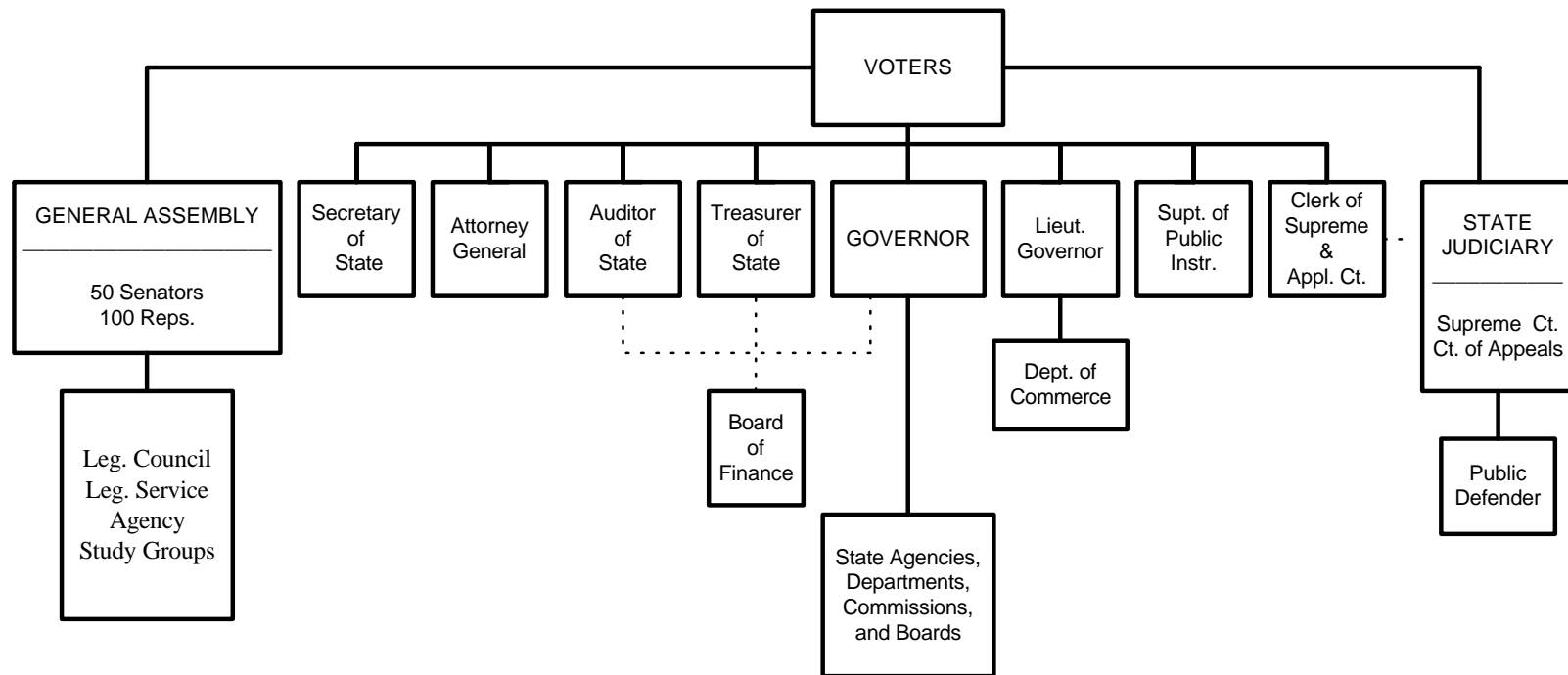
#### STATE ACCOUNTING SYSTEM FUNCTION

The state accounting system includes features of standardized source documents, uniform transaction identification and classification codes, uniform report formats, an account structure with summarization of activity for centers, agencies and funds, and centralized control for revenue deposits and warrant issuance. The centralized accounting system is maintained and operated by the Auditor of State. State agencies, offices, or departments initiate source documents for transactions. This involves maintenance of further supporting documentation or records at the agency. These records generally include the following: cash receipt forms and a cash receipts journal; document control register; special disbursing officer (SDO) records; and federal grant records. Details concerning these will be provided in related sections of the manual.

The size and scope of some state agencies necessitates additional internal accounting records for agency management and fiscal control. These are not all specifically described in this manual, the focus of which is the centralized, uniform accounting system.

The following section provides a brief summary of the duties and responsibilities of the officers, agencies, or departments which are integral components of Indiana's accounting system structure.

# STATE OF INDIANA ORGANIZATIONAL CHART



## AUDITOR OF STATE

The Auditor of State's Office function is that of state bookkeeper and disbursing officer. Deposits paid into the treasury are immediately recorded by the Auditor on the state accounting system. There is a daily comparison of total entries to the total deposits. All payments out of the treasury must be made upon a warrant prepared and signed by the Auditor or by electronic fund transfer. Payments are immediately posted to the computerized centralized accounting system. The Auditor is responsible for the pre-audit of claims before the disbursement is made.

The Auditor is also responsible for the preparation and issuance of the comprehensive annual financial report for the State of Indiana. This report shows the receipts and disbursements of each department and agency of state government.

The Auditor's Office provides and maintains the centralized accounting records required for state agencies and institutions. Copies of the records are furnished to each agency in the form of daily transactions and monthly summaries in order that the agency may have current information on the status of their accounts at all times.

These computerized records are:

<u>Report Name</u>	<u>Issued</u>
1. Agency Revenue Activity	Daily
2. Agency Revenue Quarterly Totals	Daily
3. Agency Appropriation Activity	Daily
4. Agency Available Funds Activity	Daily
5. Agency Appropriation & Allotment Trial Balance	Monthly
6. Appropriation and Allotment Funds Checking Report	Daily
7. Warrant Distribution Report	Daily
8. Agency Object Trial Balance	Monthly
9. Unliquidated Obligations Report	Monthly
10. Payroll Warrant Register	Biweekly
11. Fixed Asset Master Listing	Quarterly

## STATE BUDGET AGENCY

The State Budget Agency prepares the state's biennial budget for presentation to the Governor and then to the General Assembly. It examines and analyzes all agency budget requests and makes recommendations for inclusion in the budget report. It is also involved in projecting estimated state revenue for the biennium in conjunction with economists appointed by the Governor.

The State Budget Agency is responsible for the proper administration of the budget as approved by the legislature. It approves or modifies the quarterly allotments for each state agency, which represents funds available for expenditure. The Budget Agency may transfer, assign, or reassign any appropriation between an agency's fund/centers, with the approval of that agency.

Other functions include: approving contracts for availability of funds; reviewing and approving construction projects with the exception of highways; assisting the Governor in fixing state salary schedules; prescribing rules and regulations regarding state employee travel; considering and approving expansion of state programs; and reviewing and making recommendations on Federal grant applications of all state agencies. Each agency is assigned a budget analyst in the Budget Agency to coordinate its budgetary activity.

The Governor appoints the budget director and two deputy budget directors who must be from opposite political parties.

## TREASURER OF STATE

The Treasurer of State's Office acts as a "bank" for state funds. The Treasurer is the receiver and custodian of all state revenue, and pays out the money upon warrants issued by the Auditor of State. The Treasurer has discretionary power to invest the state funds in various Indiana financial institutions. All state departments and agencies make deposits to the Treasurer's Office, or submit evidence of direct deposits made to the credit of the treasury.

## DEPARTMENT OF ADMINISTRATION

The Department of Administration is headed by a Commissioner appointed by the Governor. The department provides centralized services required by state agencies and maintains certain critical records such as real estate deeds and state vehicle titles.

Provision of centralized services integrates like functions under a single management team, in order to realize a minimal duplication of effort and overhead, while enabling greater purchasing power and coordination. The central services provided includes: state computer operations, system analyst and programmer services; communications; mail service; printing; operation of the motor pool vehicle fleet; and management of the state and federal surplus property programs. The cost of some of these services are billed to the using agencies. Management of the state government center building use, maintenance, and security is provided by the Department. The Department also performs centralized purchasing through the Procurement Division and Public Works Division.

The Procurement Division procures supplies, materials, equipment, and services as requested by state agencies. The Public Works Division supervises and controls state contracts for buildings and improvements. These Divisions exist to ensure that acquisitions are made properly, efficiently, and within the requirements of Indiana law. Each receives agency requests, known as requisitions; issues invitations to bid; receives and evaluates bids or proposals; determines the selected contractor; and issues purchase orders. The Procurement Division also has responsibility for monitoring inventories. All executive branch agencies, departments, and offices, except the Department of Transportation, are required to utilize the Procurement and Public Works Divisions. The legislative and judicial branches, as well as the Department of Transportation, may utilize the Procurement and Public Works divisions but are not required to do so. All state contracts and leases, however, must be approved by the Commissioner.

## STATE BOARD OF ACCOUNTS

The State Board of Accounts is headed by the State Examiner, who is assisted by two Deputies of opposite political parties. All must be certified public accountants and are appointed by the Governor. The Board employs 246 field examiners, most of which have a Bachelor's Degree in Accounting and many are CPAs. Not more than half of the examiners may be of any one political party.

The primary function of the Board of Accounts is to audit or examine the accounts and records of all state and local departments, institutions, offices, or other agencies, including nonprofit entities which receive public funds. Board of Accounts' audits and reports are accepted by the federal government as the financial and compliance audit of the entity examined and the federal funds it received. Any outside audit costs paid by an agency, department, or office, not authorized by statute, may be considered a duplication of service.

The State Board of Accounts' reports become public information when officially filed by the State Examiner. Reports generally contain audit results and comments which describes overpayments, shortages, noncompliance discovered, or deficiencies in the internal control structure. Shortages of funds are subject to referral to the Attorney General for civil action and to the county prosecutor for criminal proceedings.

All accounting forms, records and systems used are required to be prescribed or approved by the State Board of Accounts. This includes all statements and reports necessary for the internal administration of the office to which they pertain. It also includes electronic, automated or computerized systems.

### SUMMARY OF AGENCY ACCOUNTING RESPONSIBILITIES

Each agency, department, institution or office has the following accounting responsibilities:

1. Operate within the confines of the established budget.
2. Maintain a control environment.
3. Maintain control procedures.
4. To properly utilize of the state accounting system.
5. Maintain an effective and accurate accounting system for subsidiary and supplementary records.
6. Maintain and make available for audit, documentation supporting the validity and accountability of monies received or disbursed.
7. Perform duties in accordance with statute, regulations, state policy, contract provisions, and federal requirements as applicable.

The accounting system provides the basis for budgetary control. The operating budget should be viewed as a comprehensive planning and control device. Each agency must function within the budget limits.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures.

Examples of control procedures include: proper authorization of transactions and activities; adequate segregation of duties; independent checks on performance; adequate documents and records; and adequate safeguards over access and use of assets and records.

The agency has the responsibility for recording and submitting documents prepared as input to the Auditor of State's accounting system. The proper utilization of the state system includes the objectives of: timely submission of documents; proper classification of the transaction; recording of accurate amounts; and verification of correct posting to reports.

In addition to supporting documentation required for the state accounting system, some agencies maintain additional subsidiary records. These records may be so extensive as to constitute the agency's accounting system, particularly for financial reporting requirements. The agency provision of an effective accounting system would entail internal control structure elements, as well as accurate and functional forms and reports. An agency's accounting system, forms, and records must be approved by the State Board of Accounts. It should be noted that the Auditor of State system and reports issued constitutes the official record of the budget, cash receipts and disbursements. As such, the agency's own accounting system should operate congruently with the state system with reconciliations of as much information as is practicable. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If the reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount.

needed to balance. Additionally, audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies and also with various accounting guides, manuals and other publications.

Every governmental unit is required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies. This includes opinions of the Attorney General of the State of Indiana and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance with these requirements may require corrective action by the governmental unit and follow up by a federal or state agency.

Responsibilities of performance of duties in accordance with applicable statutes, rules, policies and federal requirements is commonly referred to as compliance. Agency management devotes much time to the study and application of these various requirements. Relevant information should be communicated to staff. There is a listing of state statutes which relate to various state transactions in the appendix. Pertinent state policy has been included throughout the manual. The federal accounting section provides those regulations which are generally applicable to all federal programs.

The agency account clerks and accountants will have duties directly related to the performance of the agency accounting responsibilities described above. Specific instructions and recommended procedures are detailed throughout this manual for each transaction type within the state accounting system.

Each agency, department, institution or office that does not use the state's accounting system or have funds outside the system also has the responsibilities described above. For the funds outside the state's system, the governmental unit must maintain appropriate accounting records and controls. This includes performing monthly bank statement reconciliations.

Each agency, department, institution or office also has the responsibility to comply with their own internal policies and guidelines. These internal policies and guidelines cannot conflict with state or federal laws, state policies or procedures (including those in this manual) or other policies established by Department of Administration, Department of Personnel or through the Financial Management Circulars.